FISCAL NOTE

Bill #: SB0353

Title: Car rental tax and accommodations tax to fund parks and rest stop improvements

Primary Sponsor: Bohlinger, J

Status: As Amended Senate Committee

Sponsor signature Date

Chuck Swysgood, Budget Director Date

Fiscal Summary	**FY 2003**	**FY 2004**	**FY 2005**
Expenditures:	**Difference**	**Difference**	**Difference**
General Fund	$590,040	$694,074	$132,341
State Special Revenue		14,578,214	$20,932,719
Federal Special Revenue		$2,797	$2,924
Other		$16,784	$17,546
Revenue:			
General Fund		$53,150	$55,561
State Special Revenue			
Highway Rest Area Improvement		$3,894,000	$4,015,000
Historical Society - Sites & Signs		$4,567	$4,662
University System - Tourism Research		$4,298	$4,210
DFWP - Parks Maintenance		$10,998,610	$11,504,666
DOC - Statewide Tourism Promotion		$201,470	$203,014
DOC - Tourism Grants		$4,840,280	$5,063,313
Regional & Local Tourism Promotion		$67,157	$67,671
Accommodations Tax Reimbursement		$67,137	$70,183
Federal Special Revenue		$2,797	$2,924
Other		$16,784	$17,546
Net Impact on General Fund Balance:	$(590,040)	($640,924)	($76,780)

☒ Significant Local Gov. Impact

☐ Included in the Executive Budget

☒ Dedicated Revenue Form Attached

☒ Technical Concerns

☒ Significant Long-Term Impacts

☒ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Vehicle Rental Tax

1. Beginning in fiscal 2004, this bill would impose a 9% tax on the rental of light vehicles for 30 days or less. It exempts insurance loaners and insurance charges. Vendors who make timely tax payments would be allowed to retain 2% of collections as an administrative allowance. Collections would be deposited in a new highway rest area improvement special revenue account.

2. Taxable rental charges are projected to be $44.149 million in fiscal 2004 and $45.517 million in fiscal 2005. Collections would be $3.894 million in fiscal 2004 (98% x 9% x $44.149 million) and $4.015 million in fiscal 2005 (98% x 9% x $45.517 million).
3. The Department of Revenue would need a new computer system to administer the rental car tax and would require an additional 0.25 FTE for tax administration and compliance work. The cost to purchase and customize the new computer system would be $584,478 in fiscal 2003 and $623,498 in fiscal 2004, and ongoing system maintenance costs would be $65,566 in fiscal 2005. The cost of the additional 0.25 FTE would be $8,299 in fiscal 2004 and $8,235 in fiscal 2005. Expenditures for office equipment and computers would be $5,562 in fiscal 2003 and $5,800 in fiscal 2004. The department also would incur setup costs for tax return processing of $384 in fiscal 2004. The total additional cost to the department would be $590,040 in fiscal 2003 ($584,478 + $5,562), $640,924 in fiscal 2004 ($623,498 + $8,299 + $5,800 + $384) and $76,780 in fiscal 2005 ($65,566 + $8,235).
4. **Accommodations Tax**
5. Beginning in fiscal 2004, this bill would increase the accommodations tax rate from 4% to 9%. Under current law, accommodations tax collections are projected to be $13.005 million in fiscal 2004 and $13.595 million in fiscal 2005. Collections under this bill would be 9/4 times collections under current law, or $29,261,250 in fiscal 2004 and $30,588,750 million in fiscal 2005.
6. Under current law, lodging facility use tax revenue is allocated as follows:
    a. First, the Department of Revenue retains the amount appropriated for administering the tax.
    b. Second, state agencies are reimbursed for tax paid on state employees' business trips.
    c. Third, $400,000 goes to the Montana heritage preservation and development account.
    d. The remainder is allocated
        i. 1% to the Montana Historical Society for roadside historical signs and historical sites,
        ii. 2.5% to the university system for travel research,
        iii. 6.5% to the Department of Fish, Wildlife and Parks for parks maintenance,
        iv. 67.5% to the Department of Commerce for statewide tourism promotion, and
        v. 22.5% to regional and local tourism promotion.
7. Under this bill, lodging facility use tax revenue would be allocated as follows:
    a. First, the Department of Revenue retains the amount appropriated for administering the tax.
    b. Second, state agencies are reimbursed for tax paid on state employees' business trips.
    c. Third, $400,000 goes to the Montana heritage preservation and development account.
    d. The remainder is allocated
        i. 0.45% to the Montana Historical Society for roadside historical signs and historical sites,
        ii. 1.1% to the university system for travel research,
        iii. 41.45% to the Department of Fish, Wildlife and Parks for parks maintenance,
        iv. 30.0% to the Department of Commerce for statewide tourism promotion
        v. 17% to the Department of Commerce for tourism infrastructure and promotion grants, and
        vi. 10% to regional and local tourism promotion.
8. Under this bill, state agency accommodations tax payments and reimbursements to state agencies from accommodations tax collections would be 9/4 times what they are projected to be under current law.
9. The following table shows accommodations tax revenue and its allocation under current law, under this bill, and the difference.

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Accommodations Tax Revenue and Allocation

	Current Law		SB353		Difference	
	FY 2004	FY 2005	FY 2004	FY 2005	FY 2004	FY 2005
Revenue	$ 13,005,000	$ 13,595,000	$ 29,261,250	$ 30,588,750	$ 16,256,250	$ 16,993,750
DOR Administration Cost	137,254	141,371	137,254	141,371	-	-
State Agency Reimbursements						
General Fund	42,520	44,449	95,670	100,010	53,150	55,561
State Special Revenue Funds	53,709	56,146	120,846	126,329	67,137	70,183
Federal Special Revenue Funds	2,238	2,339	5,035	5,264	2,797	2,924
Other Funds	13,427	14,037	30,212	31,582	16,784	17,546
Heritage Preservation	400,000	400,000	400,000	400,000	-	-
Historical Markers & Sites	123,559	129,367	128,125	134,029	4,567	4,662
Tourism Research	308,896	323,416	313,195	327,626	4,298	4,210
Parks Maintenance & Acquisition	803,130	840,883	11,801,741	12,345,548	10,998,610	11,504,666
Statewide Tourism Promotion	8,340,200	8,732,244	8,541,670	8,935,258	201,470	203,014
Tourism Grants			4,840,280	5,063,313	4,840,280	5,063,313
Regional & Local Promotion	2,780,067	2,910,748	2,847,223	2,978,419	67,157	67,671

Department of Commerce

10. Section 9(e) of SB 353 implements a "pass-through" grants program in the Department of Commerce whose purpose is to assist local governments and nonprofit tourism groups, by distributing lodging facilities use tax proceeds on a pro-rata basis by point of collection, to assist in the planning, design, and construction or development of tourism-related infrastructure and tourism promotion.
11. For the purposes of this fiscal note it is assumed the Department of Revenue has the capacity and the databases available which would allow for the accurate distribution of lodging facility use tax proceeds on a "pro-rata by point of collection basis" since the Department of Commerce currently has no means to accurately calculate such a distribution.
12. The Department of Commerce would require 1.00 professional level statutory FTE to implement and administer the new program, at an estimated personal services cost of $48,000 in FY 2004 and FY 2005. Administrative rules would be adopted and implemented in FY 2004 and operating costs are estimated to be $25,000 in FY 2004 and $20,000 in FY 2005. Approximately $4.76 million in FY 2004 and $4.99 million FY 2005 would be allocated to grants. For the purposes of this fiscal note it is assumed the funding for administrative costs would come from the newly created program.
13. The fiscal note assumes that the Department of Commerce will spend the additional funds in the "statewide" and "regional" accounts.

Department of Fish, Wildlife and Parks

14. The State Parks Division will receive 41.45% of the total in each fiscal year resulting in increase of $10,998,610 in FY 2004 and $11,504,666 in FY 2005.
15. Expenditures of these revenues will remain consistent with historical spending patterns of 46% on personal services, 20% on operations and equipment and 34% on capital improvements annually.
16. These funds would go to maintain and improve state parks, increase staff for expanded maintenance and interpretation, and for capital improvements at places like Bannack and acquisition of parks like Brush Lake in Northeastern Montana.
17. Only one half of FY04 revenues would be expended in the first year of the biennium.
18. Capital development monies would not be spent without approval from the legislature per Sec. 23-1-126, MCA.

19. Department of Transportation

20. Monies will be collected by the Department of Revenue for the Department of Transportation.

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21. Of the 70% earmarked for the development, improvement and maintenance of rest areas $2,000,000 will be used annually to build new rest areas.
22. Current cost for the design and construction of a new rest area is approximately $2,000,000.
23. This $2,000,000 is currently Federal Aid eligible.
24. Assume one per year will be built.
25. The design will be outsourced but will still require about .25 FTE annually doing oversight. The work will be performed by a Consultant Design Engineer at about $29.00/hr, loaded at 25%. 0.25 X 2080 X $29.00 = $15,080 per year personal services plus .25 X 2080 X 29 X .25 overhead = $3,770
26. MDT has rest area designs in progress and could deliver them starting in SFY '04.
27. The 30% earmarked for the grant program will require about .25 FTE for administration at a rate similar to a Consultant Design Engineer or about $18,850 annually for the .25 FTE $15,080 personal services and $3,770 overhead.
28. Assumption is that this bill would not reduce current expenditures for rest areas but would provide additional funding for the development of new, improvement of current (seasonal to year-round and upgrading of others), and funding for the additional costs associated with new and improved areas i.e. utilities, janitorial contracts, security, garbage removal, septic system maintenance and routine supplies and materials.
29. Rest area development and improvement costs are federal-aid eligible. Under this bill the full cost of development and improvement would be through the new taxing authority.
30. New and improved sites will add additional workload to the program i.e. design and construction oversight for new and improved, right-of-way acquisition, winter maintenance functions, janitorial services contract administration, security, and day-to-day maintenance operations.
31. The department has developed a long-range Rest Area Plan (1999) that provides a framework for the development of new and improvement of current rest areas. A Rest Area Program audit has been completed by the Legislative Audit Division Report 02P-10.
32. Finding and locating rest areas has become a problem - public comment has been not in my backyard. Locating rest area in outlying rural areas add additional cost for janitorial services and all other associated maintenance costs i.e. electricians, plumbers, septic system, etc.

FISCAL IMPACT	FY 2003	FY 2004	FY 2005
Department of Revenue	Difference	Difference	Difference
Expenditures:			
FTE		0.25	0.25
Personal Services		$7,154	$7,099
Operating Expenses	$584,478	$626,825	$68,545
Equipment	$5,562	$5,800	
Benefits		$1,145	$1,136
Accommodations Tax on Employee Travel		$139,868	$146,214
Total Dept of Revenue	$590,040	$780,792	$222,994
Funding of Expenditures:			
General Fund (01)	$590,040	$694,074	$132,341
State Special Revenue (02)		$67,137	70,183
Federal Special Revenue (03)		$2,797	$2,924
Other		$16,784	$17,546
Total Dept of Revenue	$590,040	$780,792	$222,994

Department of Commerce		
FTE	1.00	1.00
Expenditures:		
Personal Services	48,000	48,000
Operating Expenses	25,000	20,000
Grants –Tourism	4,767,280	4,995,313
Grants - Statewide Account	201,470	203,014
Grants – Regional Account	67,157	67,671
Total Dept of Commerce	5,108,907	5,333,998
Funding of Expenditures:		
State Special Revenue (02)	5,108,907	5,333,998
Department of Fish, Wildlife and Parks		
FTE	65.00	130.00
Expenditures:		
Personal Services	$2,136,803	$4,467,487
Operating Expenses	$1,329,045	$2,842,386
Equipment	$100,000	$100,000
Capital	$1,933,457	$4,094,793
Total Dept of Fish, Wildlife and Parks	$5,499,305	$11,504,666
Funding of Expenditures:		
State Special Revenue (02)	$5,499,305	$11,504,666
Department of Transportation		
FTE	.50	.50
Expenditures:		
Personal Services	30,160	30,160
Operating Expenses	3,856,300	3,977,300
Transfers	7,540	7,540
Total Dept of Transportation	3,894,000	4,015,000
Funding of Expenditures:		
State Special Revenue (02)	3,894,000	4,015,000
Historical Society		
Expenditures:		
Operating Expenses	4,567	4,662
Funding of Expenditures:		
State Special Revenue (02)	4,567	4,662

University System			
Expenditures:			
Operating Expenses		4,298	4,210
Funding of Expenditures:			
State Special Revenue (02)		4,298	4,210
Revenues:			
General Fund (01)		$53,150	$ 55,561
State Special Revenue (02)			
Highway Rest Area Improvement		$3,894,000	$4,015,000
Historical Society - Sites & Signs		$4,567	$ 4,662
University System - Tourism Research		$4,298	$ 4,210
DFWP - Parks Maintenance		$ 10,998,610	$11,504,666
DOC - Statewide Tourism Promotion		$201,470	$ 203,014
DOC - Tourism Grants		$4,840,280	$5,063,313
Regional & Local Tourism Promotion		$67,157	$ 67,671
Accommodations Tax Reimbursement		$67,137	$70,183
Federal Special Revenue (03)		$2,797	$ 2,924
Other		$ 16,784	$17,546
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):			
General Fund (01)	$(590,040)	$(640,924)	$(76,780)
State Special Revenue (02)			
Highway Rest Area Improvement		$0	$0
Historical Society - Sites & Signs		$0	$0
University System - Tourism Research		$0	$0
DFWP - Parks Maintenance		$0	$0
DOC - Statewide Tourism Promotion		$5,499,305	$0
DOC - Tourism Grants		$0	$0
Regional & Local Tourism Promotion		$0	$0
Accommodations Tax Reimbursement		$0	$0
Federal Special Revenue (03)		$0	$0
Other		$0	$0

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
This bill would provide $67,137 in additional funding for regional and local tourism promotion in fiscal 2004 and $67,671 in fiscal 2005. It would provide $4,840,280 in funds for grants for local tourism infrastructure and promotion in fiscal 2004 and $5,063,313 in fiscal 2005.

LONG-RANGE IMPACTS:
The additional revenue raised and distributed by this bill will continue to grow in future fiscal years.

TECHNICAL NOTES:
Department of Revenue
1. Section 2(1) imposes a tax on the base rental charge, exclusive of insurance. Section 3(2) requires rental vehicle owners or operators to report gross receipts, which section 1(1) defines as amounts received from

renting vehicles exclusive of amounts received for motor fuel or insurance. These two sections are inconsistent.

2. Section 3(2) requires rental vehicle owners to report gross receipts but does not require them to report tax due.
3. The term “base rental charge” is not defined. If it is not defined in the bill, the department would have to define it in rules. This fiscal note assumes that base rental charge includes all charges not specifically excluded.
4. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 2-17-512, MCA.
5. Estimated IT costs were derived without the use of ITSD / CIO recommended project methodology.

Department of Commerce

6. Section 10(3) states: “A regional nonprofit tourism corporation or a local nonprofit organization referred to in subsection (2) may apply for a grant for the purposes of the section under [section 1]. ” However the amendments appear to change the new program from a competitively based grant program, to a formula based “pass-through” type of program whose purpose is to assist local governments and nonprofit tourism groups, by distributing lodging facilities use tax proceeds on a pro-rata basis by point of collection. It is unclear what kind of entities are to receive funding, and through what kind of program.
7. SB 353 as amended establishes a “pro-rata” method to determine allocation of lodging facility use tax proceeds to certain entities. However, criteria for qualification would need to be established to determine the eligibility of recipients since there could be many different entities in the various cities and counties vying for the same money.